

The Effect of Exploration Vs. Exploitation On Cross Border Acquisition Outcomes in Emerging Markets: Evidence from BRICS

Sugandh Ahuja¹, Shveta Singh², Surendra Singh Yadav³

Department of Management Studies, Indian Institute of Technology, Delhi

Abstract

Using a sample of 622 press releases from 2005-2021, this study examines the differential impact of declared acquisition motives within the Merger and Acquisition (M&A) press release on deal completion and duration outcomes. Extant literature suggests that acquisition motives expose the deal's stakeholders to varied types of risk and return. While exploratory acquisitions focused on discovering and developing new technologies and products expose the acquirer to greater risk and uncertainty, exploitation-oriented transactions focused on refining, expanding production, and increasing the efficiency of existing technologies are relatively safer. Based on the Cross-border M&A press releases of firms from five emerging economies: Brazil, Russia, India, China, and South Africa, this study employs content analysis to determine the extent of exploration orientation of a deal. Our findings indicate that deals with greater exploration orientation take longer to conclude. However, the extent of exploration orientation does not impact deal completion. The results attest to familiarity bias in the context of M&A decisions as stakeholders perceive exploration-oriented deals to be riskier than exploitation-oriented deals. Hence, such deals take a longer time for deal completion. These results have implications for emerging market firms. As prolonged deal negotiations are associated with increased costs in terms of upfront cash costs and business reputation, firms with limited resources should approach exploratory deals with caution. Our study highlights that information disclosed in press releases plays a vital role in deal resolution.

Keywords: Familiarity, completion, duration, motives, risk